

Message Text

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C O N F I D E N T I A L JAKARTA 4456

E.O. 11652: GDS
TAGS: EFIN, ID
SUBJECT: RESPONSE TO TREASURY PAPER

REF: (A) JAKARTA 4423, (B) STATE 85156, (C) JAKARTA 109

1. IN VIEW OF PREPARATIONS UNDERWAY IN DEPARTMENT OT
RESPOND TO TREASURY PAPER CONCERNING PL-480 PROGRAM FOR
INDONESIA, DEPARTMENT MAY BE INTERESTED IN FOLLOWING HIGH-
LIGHTS OF MY APRIL 6 MEETING WITH BANK INDONESIA GOVERNOR,
RACHMAT SALEH.

2. BALANCE OF PAYMENTS-I TOLD RACHMAT THAT I HAD THE
IMPRESSION THAT INDONESIA'S BOP SURPLUS THIS PAST FISCAL
YEAR WOULD HAVE BEEN IN THE NEIGHBORHOOD OF \$900 MILLION
HAD IT NOT BEEN FOR LARGE RICE IMPORTS, DEBT PREPAYMENT
AND FOREIGN-HELD DEPOSITS BY INDONESIA'S BANKS. GIVEN
THESE FACTORS, I ASKED WHAT THE SURPLUS WAS FOR THE FISCAL
YEAR JUST ENDED AND WHAT HE ANTICIPATED THE BOP SITUATION
WOULD BE DURING THE NEXT SEVERAL YEARS.

RACHMAT SAID THAT THE FOREIGN EXCHANGE RESERVES
ON MARCH 31, 1978, STOOD AT \$2.2 BILLION. THIS IS UP
\$600 MILLION COMPARED WITH A YEAR AGO. THE SURPLUS
WOULD HAVE BEEN GREATER HAD THE CENTRAL BANK NOT RE-
DUCED THE AMOUNT WHICH COMMERCIAL BANKS HAD TO KEEP ON
DEPOSIT WITH THE CENTRAL BANK FROM 30 PERCENT TO 15
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PERCENT (REF C). A SIGNIFICANT PORTION OF THE RUPIAH
FUNDS THUS RELEASED IN THE BANKING SYSTEM WERE DEPOSITED
ABROAD TO BENEFIT FROM HIGHER INTEREST RATES AND THIS
REDUCED THE BOP SURPLUS.

RACHMAT SAID HE EXPECTED THE SURPLUS DURING THE
CURRENT INDONESIAN FISCAL YEAR TO BE BETWEEN \$200 AND

\$300 MILLION. HE EXPECTED FURTHER TIGHTENING IN THE BOP SITUATION FOR THE NEXT SEVERAL YEARS. HE HOPED THERE WOULD NOT BE A DEFICIT, BUT THIS MIGHT OCCUR FOR A YEAR OR SO. ANY PROTRACTED DEFICIT WOULD INDICATE THAT INDONESIA'S POLICIES ARE WRONG AND THAT CHANGES WOULD HAVE TO BE MADE.

3. DEBT SERVICE-REFERRING TO A RECENT ARTICLE IN THE ASIAN WALL STREET JOURNAL BASED ON AN INTERVIEW WITH FINANCE MINISTER WARDHANA, I ASKED FOR THE GOVERNOR'S PROJECTIONS ON DEBT SERVICING WITHIN THE NEXT FEW YEARS, PARTICULARLY WHEN PAYMENTS START ON THE MORGAN GUARANTY REPLACEMENT LOAN. RACHMAT SAID THAT THE DEBT SERVICE RATIO (OF 18 PERCENT) CITED BY THE AWSJ WAS BASED ON OLD PROJECTIONS. FOLLOWING THE MORGAN GUARANTY REPLACEMENT LOAN, HE NOW ESTIMATED THE FIGURE AT 16 PERCENT AND FELT IT WOULD STAY AT APPROXIMATELY THIS LEVEL DURING THE THREE YEAR GRACE PERIOD. WHEN REPAYMENT OF THIS LOAN STARTS IN 1981, THE FIGURE WILL GO UP TO SOMETHING BETWEEN 18 PERCENT AND 19 PERCENT, BUT HE DID NOT EXPECT IT TO REACH THE 20 PERCENT "WARNING LEVEL."

RACHMAT SAID THAT THESE PROJECTIONS WERE BASED ON THE ASSUMPTION THAT ANNUAL BORROWING WOULD TOTAL ABOUT \$2 BILLION. IT ASSUMED, AS IN THE PAST, THAT ABOUT \$1 BILLION TO \$1.2 BILLION WOULD BE SOFT LOANS UNDER THE IGGI OR VARIOUS BILATERAL AID PROGRAMS; THAT

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\$300 MILLION TO \$400 MILLION WOULD BE SEMI-SOFT LOANS, LARGELY FROM EASTERN EUROPE AND THE ARAB STATES; AND THAT \$400 MILLION TO \$500 MILLION WOULD BE ON COMMERCIAL TERMS.

4. EXCHANGE RATES-I TOLD RACHMAT THAT RUMORS PERSISTED THAT INDONESIA MIGHT DEVALUE THE RUPIAH AND ASKED FOR HIS COMMENTS. RACHMAT SAID HE WAS AWARE OF THESE RUMORS, BUT SAW NO REASON TO CHANGE THE PRESENT EXCHANGE RATE POLICY. THE BALANCE OF PAYMENTS SITUATION REMAINED FIRM AND INDONESIA WAS HAVING NO DIFFICULTY IN SELLING ITS MAJOR EXPORTS. MOREOVER, HE NOTED THAT THERE HAD BEEN A DEFACOR DEVALUATION OF THE RUPIAH BY ABOUT 15 PERCENT IN TERMS OF OTHER CURRENCIES BECAUSE THE RUPIAH REMAINS TIED TO THE DOLLAR. HE SAID HE AND OTHERS IN THE GOI ASSUME THAT THE PRESENT DIFFICULTIES OF THE DOLLAR ARE TEMPORARY.

MASTERS

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